COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0511-01
Bill No.: HB 422
Subject: Tax Credits; Taxation and Revenue - Income; Revenue Department; Taxation and Revenue - Sales and Use
Type: Original
Date: February 19, 2013

Bill Summary: This proposal would authorize Missouri to enter into the multi-state Streamlined Sales and Use Tax Agreement, would eliminate all state tax credits, would phase in a flat income tax rate, and would increase the sales and use tax rate by .25%.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(More than $367,213,000)	(More than $317,364,805)	(More than $540,207,805)
Total Estimated Net Effect on General Revenue Fund	**(More than $367,213,000)**	**(More than $317,364,805)**	**(More than $540,207,805)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.
This fiscal note contains 25 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	$0	More than $100,000	More than $100,000
Parks, and Soil and Water	$0	More than $100,000	More than $100,000
School District Trust	$0	More than $100,000	More than $100,000
Total Estimated Net Effect on Other State Funds	**$0**	**More than $300,000**	**More than $300,000**

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on All Federal Funds	**$0**	**$0**	**$0**

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Total Estimated Net Effect on FTE	**0**	**0**	**0**

☒ Estimated Total Net Effect on All funds expected to exceed $100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed $100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	**$0**	**More than $100,000**	**More than $100,000**

FISCAL ANALYSIS

ASSUMPTION

Section 32.070, RSMo. etc. Streamlined Sales Tax:

Officials from the **Department of Conservation** assume the fiscal impact for the Streamlined Sales Tax provisions of the legislation is unknown, but greater than $100,000. The Department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials at the **Department of Natural Resources** assume the Streamlined Sales and Use Tax Agreement (SSUTA) focuses on improving sales and use tax administration systems for all sellers and for all types of commerce. The Department's Parks and Soils Sales Tax Funds are derived from one-tenth of one percent sales and use tax pursuant to Article IV Section 47(a) of the Missouri Constitution. Any increase in sales tax collected would increase revenue to the Parks and Soils Sales Tax Funds. (PSSTF).

The department assumes the Department of Revenue would be better able to estimate the anticipated fiscal impact that would result from this proposal.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume the proposed legislation would not result in additional costs or savings to their organization.

ASSUMPTION (continued)

BAP officials note this proposal would require the adoption and implementation of the Streamlined Sales Tax Agreement. The proposal would becomes effective Jan. 1, 2015.

Two studies of the state and local revenues that Missouri might gain from collecting sales tax on e-commerce provide an estimated range of $108 million (Eisanach & Litan, Feb. 2010) and $210 million (Bruce, Fox, & Luna, April 2009). Both studies are limited to the gains from e-commerce, and do not attempt to estimate other remote sales. BAP officials note that remote sellers would be able to remit sales tax under this agreement, and assume this proposal would generate $10 million in total state revenues annually, of which $7 million would be due to the General Revenue Fund.

Oversight has reviewed the studies cited by BAP and we noted that there are significant differences between the two studies in the methodology used to estimate the level of internet and other remote sales, the proportion of remote sales which would be taxable, and the current level of compliance with existing tax provisions.

The Bruce, Fox, and Luna report suggests that approximately 25% of sales taxes due on e-commerce are uncollected, and that sales tax collections on e-commerce were $26.1 billion for the year 2010. This rough estimate of the uncollected sales tax would indicate that $8.7 billion was uncollected for the United States. If 1.8% of the $8.7 billion was due the state of Missouri, the additional revenue would amount to $156.6 million. The Eisenach and Litan report suggests only $3.8 billion in uncollected sales tax on e-commerce; 1.8% of that amount attributable to Missouri would be $70.2 million.

Information reported by the United States Census Bureau indicates that online retail sales grew at an average rate of 20% per year for the years 2000 to 2007, with lower growth rates for 2007 to 2009. A report by marketing and information technology consultants Forrester Research projected a 10% annual growth rate for the years 2009 through 2015, with online sales accounting for 11% of total retail sales (excluding groceries) by 2015.

ASSUMPTION (continued)

Oversight has recently been provided an estimate of Streamlined Sales Tax Program revenue by officials from the Streamlined Sales Tax Governing Board. That estimate was based on comparing population and per capita income information for Missouri with the same information for states currently participating in the Streamlined Sales Tax program. Based on those calculations, Streamlined Sales Tax Governing Board officials estimated that those Missouri state funds which receive sales tax revenues would collect an additional $13.7 million in the first full year of operation.

Streamlined Sales Tax Governing Board officials stated that the program is currently voluntary; and the member states have agreed to simplify their sales tax programs and contract with third-party transaction processors who collect and remit sales taxes to the member states. Participating multistate retailers agree to collect and remit sales taxes to member states, typically in exchange for an amnesty on prior uncollected sales and use taxes.

Oversight assumes the Governing Board estimate is the most reasonable estimate of potential additional revenue under the current voluntary program. Additional revenue could become available in the future if the United States government approves law changes to make state sales tax laws enforceable on interstate sales.

The $13.7 million in additional collected would be due to the following state funds, and **Oversight** has also provided an estimate of additional revenues to local governments.

Entity	Tax Rate	
General Revenue Fund	3.000%	$9,738,000
School District Trust Fund	1.000%	$3,246,000
Conservation Commission Fund	0.125%	$324,600
Parks, and Soils Fund	0.100%	$405,800
Local Governments *	Average 3.800%	$12,334,900
Total	NA	$26,049,300

* The average rate for local sales and use tax is calculated based on tax revenues reported by the Department of Revenue for the year ended June 30, 2010.

ASSUMPTION (continued)

For fiscal note purposes, **Oversight** will indicate additional revenue in excess of $100,000 per year for those state funds that receive sales tax revenues, and for local governments.

Section 143.183, RSMo, - Nonresident Athletes and Entertainers Tax:

Officials from the **Office of the Secretary of State - Missouri State Library** assume the Non-resident Athletes and Entertainers tax, as currently authorized under RSMO, 143.183 7, provides funding to Missouri public library districts for the purchase of library materials. Up to 10% of the revenue collected (estimated by OA B&P to be $33,390,000 for FY14) is intended to be distributed to public libraries annually. Eliminating this program would result in a potential loss of revenue up to $3,339,000 annually.

Officials from the **Department of Natural Resources** stated that section 143.183, RSMo, provides 10% of the annual estimate of taxes generated from the Nonresident Athletes and Entertainers Tax should be allocated annually to the Historic Preservation Revolving Fund, and would be transferred, subject to appropriation, from the General Revenue Fund to the Historic Preservation Revolving Fund.

This proposal would end the transfer of the Nonresidents Athletes and Entertainers Tax to the Historic Preservation Revolving Fund after December 31, 2013. Over the last four fiscal years the department received the following transfers. No transfer was appropriate for FY 2011.

FY 2008	$1,126,000
FY 2009	$873,000
FY 2010	$738,413
FY 2011	$0

The department defers to the Department of Revenue for estimates of the amount of Nonresidents Athletes and Entertainers Tax to be allocated each year.

Oversight notes that amounts transferred to the various recipients for the Athletes and Entertainers Tax have been appropriated based on budget considerations rather than current statutory provisions. Accordingly, Oversight will indicate no fiscal impact for this change.

ASSUMPTION (continued)

Various Sections - Elimination of Tax Credit Programs:

Officials from the **Department of Economic Development** (**DED**) assume this proposal would prohibit the issuance of several tax credit programs administered by BCS, effective December 31, 2013. The proposal also requires that any outstanding tax credits authorized under these programs be redeemed by January 1, 2016. DED assumes an unknown positive impact over $100,000 as a result of this proposal. Any anticipated positive fiscal impact based on the sunset of programs, would be offset by an unknown negative fiscal impact with respect to those programs that require or result in a net positive fiscal impact to the state in order for the benefit or tax credit to be issued. Such programs would include Enhanced Enterprise Zone, Brownfield, and Missouri Quality Jobs.

BCS also assumes there would be a graduated reduction in FTE over time, at the earliest starting in FY 2016, as projects are completed and close out.

The department's response is based on an average of tax credit authorizations. There may be legal ramifications by limiting tax credit issuances versus authorizations.

The potential positive fiscal impact as a result of the repealed programs is based on estimates of the range of potential positive fiscal impact, with the high end of the range represented by the applicable program cap and the low end represented by the average annual authorizations of tax credits under the applicable programs for fiscal years 2010 through 2012. This range reflects the fact although in any fiscal years there is the potential for tax credit authorizations under these programs up to the applicable cap, the actual authorizations are often less than the cap amount.

ASSUMPTION (continued)

Programs Repealed	Statutory Authority	Savings Based on Average Authorizations (FY10-FY12)	Maximum Savings Based on Current Statutory Cap
Neighborhood Assistance	32.115	$11,582.390	$16,000,000
Development Tax Credit	32.115	$4,095,138	$6,000,000
Distressed Area Land Assemblage	99.1205	$10,416,833	$20,000,000
New Business Facility (headquarters only)	135.110	$4,729,558	$4,729,558
Enterprise Zone (current projects only)	135.220	$2,789,026	$2,789,026
Capital SBIC and CDC Community Bank Tax Credit programs	135.403	Program Cap Exhausted	Program Cap Exhausted
Youth Opportunities	135.460	$4,809,372	$6,000,000
Neighborhood Preservation	135.481	$9,394,389	$16,000000
Certified Capital Companies (CAPCO)	135.503	Program Cap Exhausted	Program Cap Exhausted
Rebuilding Communities	135.535	$2,061,129	$8,000,000
Transportation Development	135.545	Program Eliminated	Program Eliminated by Statute
New Markets Tax Credit (No equity investments unless program is reauthorized.)	135.680	15,860,000	$25,000,000
Wine Producers & Grape Growers	135.700	$85,222	$85,222
Film Producers	135.750	$648,700	$4,500,000
SBA Guarantee Fee	135.766	Program Eliminated	Program Eliminated by Statute
Enhanced Enterprise Zone	135.967	$14,366,355	$24,000,000
Family Development Account	208.770	$0	$300,000
Historic Preservation	253.550	$93,647,005	$140,000,000 (FY11)

Seed Capital Investment	348.302	Program Cap Exhausted	Program Cap Exhausted
Brownfield Redevelopment	447.708	$10,226,308	$10,226,208
Business Incubator	620.495	$496,957	$500,000
New Enterprise Creation Act	620.650	Program Cap Exhausted	Program Cap Exhausted
Quality Jobs	620.1881	$72,282,608	$80,000,000
TOTAL SAVINGS		**$257,490,990**	**$364,130,114**

Officials from the **Missouri Housing Development Commission** (**MHDC**) assume that because the MOLIHTC is a 10 year credit, the full impact of the proposed changes would not greatly impact General Revenue over FY 2014 and 2015. However, the savings to General Revenue would begin in FY 2016.

The fiscal impact associated with the elimination in MOLIHTC (future issuances and redemptions) are projected to start in the second half of FY 2016 in the amount of $18,500,000. It is assumed that MHDC would receive approximately $13,500,000 in 9% federal LIHTC and $6,000,000 in 4% federal LIHTC.

The fiscal impact associated with the elimination of AHAP credits (redemptions) is projected to start in the second half of FY 2016 in the amount of $6,050,000. It is assumed that the cap is $11,000,000 resulting in an impact of $6,050,000 ($11,000,000 * .55).

MHDC would continue to administer the federal LIHTC; no MHDC staff salaries are currently paid through General Revenue.

Officials from the **Missouri Development Finance Board** (**MDFB**) estimate a negative fiscal impact of $25,250,000 to the State in fiscal year 2014 if this proposal is enacted due to the issuance and redemption of the Bond Guarantee Tax Credits to satisfy the debt of the Board due to a default in terms.

MFDB staff estimate that the legislation would be neutral in regards to the MDFB Tax Credit for Contribution Program and BUILD program during FY 2014, 2015 and 2016 as it is estimated that the credits would be issued and redeemed during this time frame regardless of new legislation. Positive impact, if any, from the legislation on these two programs would not be realized until FY 2017. Any gain could potentially be reduced by legal settlements imposed on the Board and State due to breach of BUILD contracts.

ASSUMPTION (continued)

Officials from the **Department of Agriculture** assume Missouri farmers would not be eligible for $9.3 million in tax credits each year after December 31, 2013. In addition, those farmers holding a valid tax credit certificate issued prior to 1/1/14 but not yet redeemed (carry forward 5 taxable years) as of 12/31/15 would not be able to redeem those credits. Based on a four year average, there are approximately $12,170,403 tax credits outstanding each years. There could be two full year of tax credits issued that cannot be redeemed.

Officials from the **Department of Natural Resources** assume this proposal would prohibit Economic Development from issuing Historic Preservation Tax Credits after December 31, 2013. Further, any tax credit issued prior to January 1, 2014 must be redeemed before January 1, 2016.

The State Historic Preservation Office is responsible for reviewing and approving rehabilitation work for state historic preservation tax credits. Federal and State tax credits can be used in combination for the rehabilitation of commercial or income producing properties. This proposal would eliminate the State Historic Rehabilitation Tax Credit Program offered by the Department of Economic Development. The department receives appropriations from the Economic Development Enhancement Fund in part for review of the applications for the State Historic Preservation Tax Credit application.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration** assume an unknown increase of up to eighty million dollars to premium tax revenues as a result of elimination of tax credits in this bill. It is unknown how many insurance companies have outstanding tax credits that must be redeemed before Fiscal Year 2016 or how many new tax credits may be issued, if any, before December 31, 2013. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

ASSUMPTION (continued)

According to the Tax Credit Analysis' submitted by the Departments regarding the listed tax credit programs, the following have an annual or program cap and issue average as stated below:

Agency	Statute Section	Program Name	Annual or Program(P) Cap	Issue Average
AGR	348.430	Agriculture Product Utilization	$6,000,000 shared	$1,716,355
AGR	348.432	New Generation Coop	$6,000,000 shared	$3,389,429
AGR	348.500	Family Farm Breeding	$300,000	$84,129
AGR	135.679	Qualified Beef	$3,000,000	$122,973
DED	135.700	Wine and Grape	none	$111,737
DED	135.110	Business Facility	none	$4,914,543
DED	135.200	Enterprise Zone	none	$6,785,463
MDFB	100.700	BUILD	$25,000,000	$8,422,005
DED	32.100	Development	none	$2,560,772
DED	135.535	Rebuilding Communities	$8,000,000	$1,684,041
DED	135.750	Film Production	$4,500,000	$1,786,880
DED	135.950	Enhanced Enterprise Zone	$24,000,000	$4,381,914
DED	620.1875	Quality Jobs	$80,000,000	$19,160,737
DED	137.1018	Rolling Stock	none	never issued
DED	32.100	Neighborhood Assistance	$16,000,000	$10,335,397
DED	208.750	Family Development Account	$300,000	$12,750

DED	320.093	Dry Fire Hydrant	$500,000	$12,373
DED	135.545	Transportation Development	already expired	$0
DED	620.1100	Youth Opportunities	$6,000,000	$4,793,395
DOS	135.550	Domestic Violence	$2,000,000	$1,038,973
DOR	135.325	Special Needs/CIC	$4,000,000 shared	$2,388,339
DOS	135.600	Maternity Home	$2,000,000	$1,175,750
DOR	135.090	Surviving Spouse	none	$20,468
DOS	135.1150	Residential Treatment	none	$430,663
DOS	135.630	Pregnancy Resource	$2,000,000	$1,523,454
DOR	135.647	Food Pantry	$2,000,000	$644,583
DOR	135.575	MO Healthcare	never implemented	$0
DOR	135.562	Residential Dwelling-Ind	$100,000	$16,498
DOH	660.053	Shared Care	none	$148,100
DOR	137.106	Homestead Preservation	none	$1,092,757
DOS	135.1180	Developmental Disability	just starting	$0
DED	135.400	Capital Tax	already expired	$0
DED	135.500	CAPCO	already expired	$0
DED	348.300	Seed Capital	already expired	$0
DED	620.635	New Enterprise Creation	already expired	$0
DED	620.1039	Qualified Research Tax	already expired	$0

DED	620.495	Small Business Incubator	$500,000	$208,767
DED	135.766	Guarantee Fee	already expired	$0
DNR	135.313	Charcoal Producer	none	$0
DNR	135.300	Wood Energy	none	$3,294,970
DNR	135.710	Alternative Fuel	$1,000,000	$89,645
DOR	148.064	Bank Franchise	none	$2,685,747
DOR	143.471	Bank S Corp	none	$2,629,367
DIFP	148.400	MO Exam Fee	none	$7,133,651
DIFP	376.975	Health Insurance High Risk	none	$9,642,911
DIFP	376.745	Life & Health Ins Guar	none	$14,986,005
DIFP	375.774	Property & Casualty	none	$2,303,996
DOR	143.119	Self-Employed Health	none	$1,512,185
DED	135.475	Neighborhood Preservation	$16,000,000	$4,248,174
MHDC	135.350	Low-Income Housing	$6,000,000	$151,279,787
MHDC	32.105	Affordable Housing	$11,000,000	$6,807,399
DED	253.545	Historic Preservation	$140,000,000	$122,056,553
DED	447.700	Brownfield (Remediation)	none	$16,530,776
DED		Brownfield (Demolition)	none	$0
DED		Brownfield (Jobs/Investment)	none	$1,885,525

DED	135.400	Community Development Corp	already expired	$0
MDFB	100.286	Infrastructure	$15,000,000	$23,565,663
MDFB	100.297	Bond Guarantee	$50,000,000 (P)	$0
DOR	135.490	Disabled Access-Small bus	none	$21,944
DED	135.680	New Markets	$0 remaining (P)	$0
DED	99.1205	Distressed Area Land Assemblage	$20,000,000 remaining (P)	$10,416,833
DED	178.892	Community College New Jobs	$45,000,000 remaining (P)	$3,745,002
DED	620.1400	Skills Development Account	already expired	$0
DED	620.1560	Mature Worker	already expired	$0
DED	178.760	Job Retention	$41,000,000 remaining (P)	$5,910,817
		TOTAL	**$537,700,000**	**$469,430,195**

Oversight assumes the language in this part of the proposal would eliminate the above listed tax credit programs beginning December 31, 2013 (FY 2014); and therefore, Oversight will show a savings to state revenue for credits not issued in FY 2015 and FY 2016.

For fiscal note purposes, **Oversight** will reflect a potential savings to the General Revenue Fund of "Less than $583,394,943" because of timing differences. For example, many credits have carry forward and/or carry back provisions which would skew estimates of when the credit would actually be redeemed (and impact the General Revenue Fund). Also, some projects within the above programs (i.e. Low-Income Housing) have a significant amount of lag time between the authorization of the credits, the subsequent issuance and finally the redemption. Therefore, the full impact of this proposal could take several years.

ASSUMPTION (continued)

Section 144.020 - Sales Tax Rate Increase:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this provision would have no fiscal impact on their organization.

BAP officials noted this provision would create an additional 0.25% sales tax "in addition to the tax imposed under" 144.020.1. Since the food sales tax rate is imposed in 144.014, BAP officials assumes food would be excluded from this additional rate. In FY 2012, General Revenue Fund sales tax collections totaled $1,873.3 million, at a rate of 3%. Therefore, BAP officials assumes this proposal could generate $156.1 million in general revenues.

BAP officials note that this provision would exceed the limits in Article X, Section 18e.

Oversight will use the BAP estimate of additional revenue. Oversight assumes that for FY 2014, revenue would be less than (10/12 x $156.1 million) = $130.083 million due to startup and reporting considerations.

Section 143.031, RSMo. - Individual Income Tax Provisions:

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this provision would have no fiscal impact on their organization.

BAP officials noted this proposal would make numerous changes to the income tax statutes, including phasing in over three years a flat income tax rate of 3.75% of taxable income, and modifying existing exemptions. BAP will continue to review these sections and provide updated information as it becomes available. UM-EPARC may be able to provide an estimate.

ASSUMPTION (continued)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** provided this analysis of the provisions.

If enacted, this proposal would phase-in a reduced flat income tax by 2016. Specifically, in 2014, the proposal would replace the current individual income tax brackets with a 4.4% flat tax rate on taxable income and in 2015, would reduce the flat tax rate on individual taxable income to 4%. In 2016, it would reduce the flat tax rate on individual taxable income to 3.8%. The proposal would also enact new personal and dependent exemptions.

Single/Head of Household/Qualifying Widow or Widower - $ 5,000
Married Filing Combined or Separately - $ 5,000
Dependent Exemption - $ 5,000

The proposal would also recalculate Missouri taxable income for individuals in the following manner:

Wages, salaries, tips, etc. (Federal 1040, line 7)
plus Schedule C Income (Federal 1040, line 12)
plus Schedule E Income (Federal 1040, line 17)
plus Schedule F Income (Federal 1040, line 18)
less Health Savings Account Deduction (Federal 1040, line 25)
less New Missouri Personal and Dependent Exemptions
would equal Missouri Taxable Income.

That Missouri Taxable Income would then be multiplied by the corresponding proposed tax rate.

ASSUMPTION (continued)

EPARC officials provided the following explanation of the way their simulations were adjusted for the elimination of tax credits.

When tax credit reductions are considered in the simulation, we must adjust for the amount of tax credits refunded to taxpayers beyond their gross income tax due in order to estimate the total cost to Net General Revenue. EPARC officials noted that taxpayers received a total of $584.831 million in General and Outstate Tax Credits, and estimated that of this $584.831 million, $538.822 million was used to reduce taxpayers' Net Tax Due, while the remaining $46.009 million was refunded to taxpayers. EPARC subtracted that figure from Net Tax Due, $4,693.390, to arrive at the Baseline Net Tax Due of $4,647.381 million for this proposal.

The EPARC simulation indicated these personal income tax provisions would change net tax due for individuals.

Year	Individual income tax revenue	Reduction in revenue
Baseline (FY 2012)	$4,647.381	NA
Year 1 (FY 2014)	$4,226.966	$420.415
Year 2 (FY 2015)	$3,842.693	$804.688
Year 3 (FY 2016)	$3,650.562	$996.819

(Numbers are in millions of dollars.)

Oversight will use the EPARC estimate of revenue reduction.

ASSUMPTION (continued)

Section 143.071, RSMo. Corporate Income Tax Rate Reduction

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assume this provision would have no fiscal impact on their organization.

BAP officials noted this proposal would lower the corporate income tax rate to 3.5% over three years. BAP estimated the revenue impact in the table below.

Year	Corporate income tax revenue	Reduction in revenue
Baseline (FY 2012	$275.6	NA
Year 1 (FY 2014)	$220.5	$55.1
Year 2 (FY 2015)	$176.4	$99.2
Year 3 (FY 2016)	$154.3	$121.3

(Numbers are in millions of dollars.)

Officials from the **University of Missouri, Economic Policy Analysis and Research Center (EPARC)** provided this analysis of the provisions.

Year	Corporate income tax revenue	Reduction in revenue
Baseline (FY 2012	$383.905	NA
Year 1 (FY 2014)	$307.124	$76.781
Year 2 (FY 2015)	$245.698	$138.207
Year 3 (FY 2016)	$214.986	$168.919

Oversight will use The EPARC estimate of revenue reduction.

Bill as a Whole

Officials from the **Joint Committee on Administrative Rules** assume there is no fiscal impact from this proposal.

Officials at the **Department of Conservation** assume the income tax provisions, tax credit provisions, and the ¼ of one percent sales tax increase provision of this proposal would not have a fiscal impact to the Department of Conservation.

Officials from the **Department of Economic Development - Division of Workforce Development** assume there would no longer be training assistance available to offer companies for the purposes of creating and retaining jobs. The impact is unknown but estimated to be in the millions.

Due to the lack of current DOR information, **Oversight** assumes DOR would have costs in excess of $100,000 per year for these programs, but that additional revenue from the Streamlined Sales Tax Program would more than offset the additional DOR cost.

FISCAL IMPACT - State Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
GENERAL REVENUE			
Additional revenue - Streamlined Sales Tax Section 32.070, etc	$0	More than $100,000	More than $100,000
Additional revenue - Increased sales tax (Section 144.020)	Less than $130,083,000	$156,100,000	$156,100,000
Additional revenue - elimination of tax credit programs Various Sections	$0	Less than $469,430,195	Less than $469,430,195
Revenue reduction - Personal income tax changes Section 143.031	($420,415,000)	($804,688,000)	($996,819,000)
Revenue reduction - Corporate income tax rate reduction Section 143.071	($76,781,000)	($138,207,000)	($168,919,000)
Cost - Department of Revenue	(More than $100,000)	(More than $100,000)	(More than $100,000)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	**(More than $367,213,000)**	**(More than $317,364,805)**	**(More than $540,207,805)**

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - State Government (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
CONSERVATION COMMISSION FUND			
Additional revenue - Streamlined Sales Tax Section 32.070, etc	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND	**$0**	**More than $100,000**	**More than $100,000**
PARKS, AND SOIL AND WATER FUND			
Additional revenue - Streamlined Sales Tax Section 32.070, etc	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUND	**$0**	**More than $100,000**	**More than $100,000**
SCHOOL DISTRICT TRUST FUND			
Additional revenue - Streamlined Sales Tax Section 32.070, etc.	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON SCHOOL DISTRICT TRUST FUND	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Local Government	FY 2014 (10 Mo.)	FY 2015	FY 2016
Additional revenue - Streamlined Sales Tax Section 32.070, etc	$0	More than $100,000	More than $100,000
ESTIMATED NET EFFECT ON LOCAL GOVERNMENTS	**$0**	**More than $100,000**	**More than $100,000**

FISCAL IMPACT - Small Business

Small businesses may be impacted by numerous provisions of this proposal.

FISCAL DESCRIPTION

This proposal would authorize Missouri to enter into the multistate Streamlined Sales and Use Tax Agreement, would eliminate all state tax credits, would phase in a flat income tax rate, and would increase the sales and use tax rate by .25%.

Streamlined Sales and Use Tax Agreement

The Director of the Department of Revenue would be required to enter into the multistate Streamlined Sales and Use Tax Agreement to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and for all types of commerce. The department would be required to establish the necessary rules to implement the compliance provisions of the agreement.

Elimination of Tax Credits

All tax credits would be eliminated after December 31, 2012; and any previously issued tax credit would need to be redeemed before January 1, 2016, except for the food pantry tax credit and the pregnancy resource center tax credit which would need to be redeemed before January 1, 2015.

Sales and Use Tax Increase

Beginning January 1, 2016, the proposal would increase the state sales and use tax rate by .25% for the General Revenue Fund.

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ASSUMPTION (continued)

Flat Income Tax Rate

Beginning January 1, 2014, the bill would phase in a flat tax rate for individual income tax of 4.4% for tax year 2014, 4% for 2015, and 3.8% for 2016 and all subsequent tax years. The corporate income tax rate would be reduced from 6.25% to 5% for tax year 2014, 4% for tax year 2015, and 3.5% for 2016 and all subsequent tax years. Changes to taxable income components and to deductions and exemptions would also be implemented.

The provisions of the bill regarding the streamlined sales tax would become effective January 1, 2015.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration - Division of Budget and Planning
Department of Agriculture
Department of Conservation
Department of Economic Development
   Missouri Development Finance Board
   Missouri Housing Development Commission
   Division of Business and Community Services
   Division of Workforce Development
Department of Health and Senior Services
Department of Insurance, Financial Institutions and Professional Registration
Department of Natural Resources
Joint Committee on Administrative Rules
Office of the Secretary of State
   Missouri State Library
University of Missouri - Economic Policy Analysis and Research Center

SOURCES OF INFORMATION (continued)

Not Responding:
Department of Transportation
Department of Revenue
Department of Social Services

Ross Strope
Acting Director
February 19, 2013

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